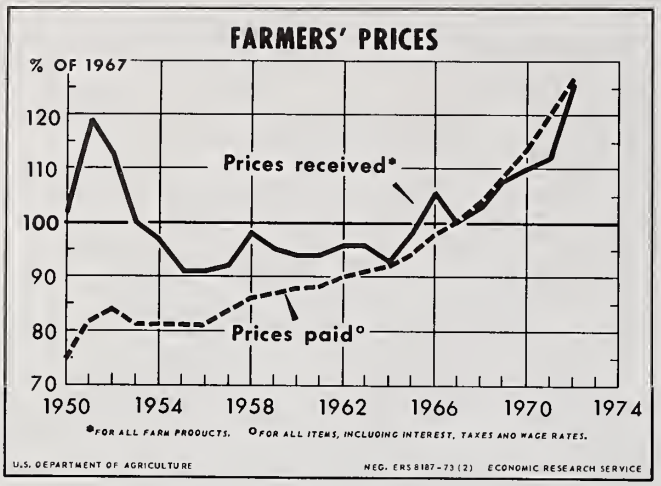
DPS-135

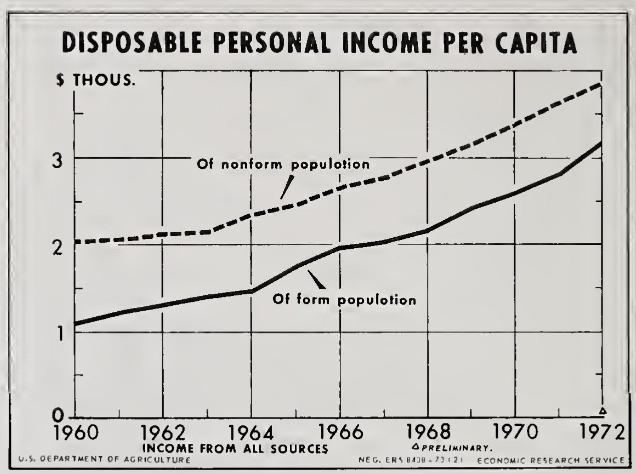
FEBRUARY 1973

DEMAND AND PRICE Situation

ECONOMIC RESEARCH SERVICE

U.S. DEPARTMENT OF AGRICULTURE


FARMERS' PRICES
% OF 1967
120
110
100
90
80
70
Prices received*
Prices paid°
1950
1954
1958
1962
1966
1970
1974
*FOR ALL FARM PRODUCTS. °FOR ALL ITEMS, INCLUDING INTEREST, TAXES AND WAGE RATES.
U.S. DEPARTMENT OF AGRICULTURE
NEG. ERS 8187-73 (2) ECONOMIC RESEARCH SERVICE


DISPOSABLE PERSONAL INCOME PER CAPITA
$ THOUS.
3
2
1
0
Of nonfarm population
Of farm population
1960
1962
1964
1966
1968
1970
1972
INCOME FROM ALL SOURCES
△PRELIMINARY.
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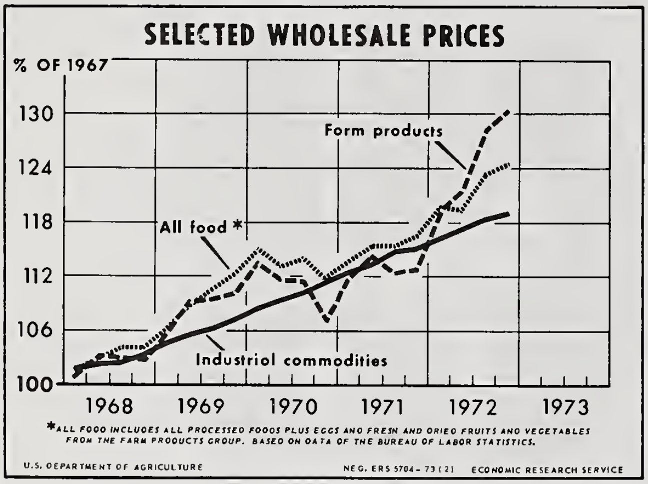
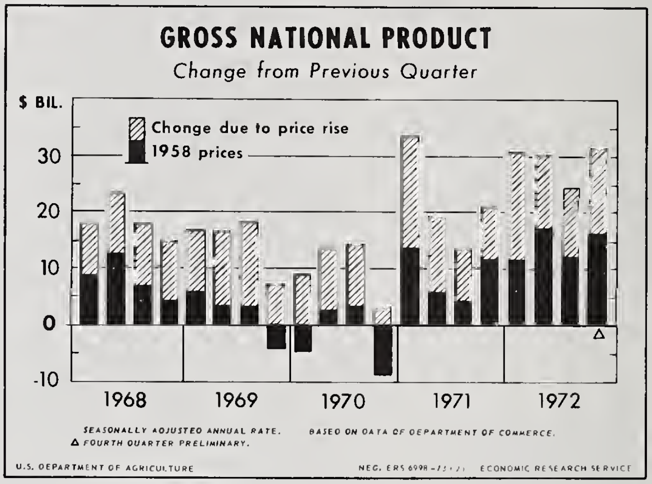
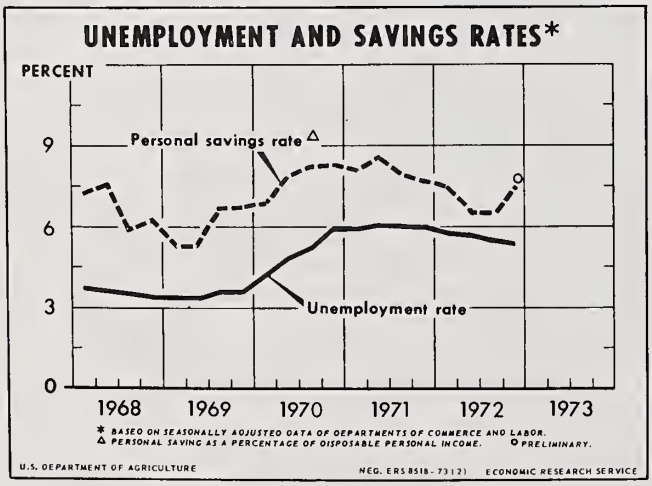
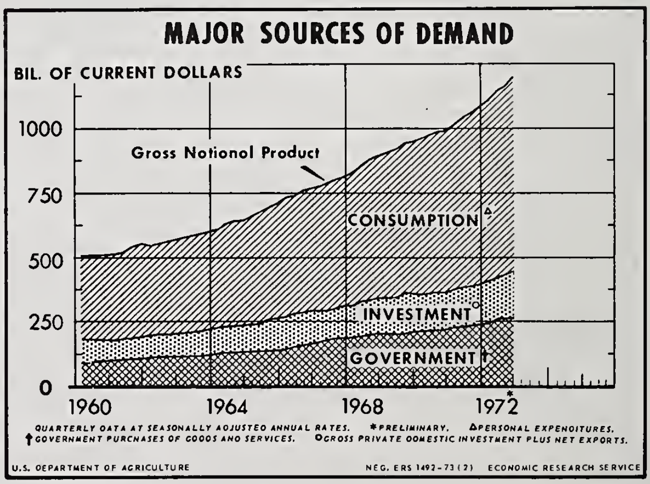

SELECTED WHOLESALE PRICES
% OF 1967
130
124
118
112
106
100
Farm products
All food *
Industrial commodities
1968
1969
1970
1971
1972
1973
*ALL FOOD INCLUDES ALL PROCESSED FOODS PLUS EGGS AND FRESH AND DRIED FRUITS AND VEGETABLES FROM THE FARM PRODUCTS GROUP. BASED ON DATA OF THE BUREAU OF LABOR STATISTICS.
U.S. DEPARTMENT OF AGRICULTURE
NEG. ERS 5704-73 (2) ECONOMIC RESEARCH SERVICE


GROSS NATIONAL PRODUCT
Change from Previous Quarter
$ BIL.
Change due to price rise
1958 prices
30
20
10
0
-10
1968
1969
1970
1971
1972
SEASONALLY ADJUSTED ANNUAL RATE.
BASED ON DATA OF DEPARTMENT OF COMMERCE.
△ FOURTH QUARTER PRELIMINARY.
U.S. DEPARTMENT OF AGRICULTURE
ECONOMIC RESEARCH SERVICE


UNEMPLOYMENT AND SAVINGS RATES*
PERCENT
9
6
3
0
Personal savings rate △
Unemployment rate
1968
1969
1970
1971
1972
1973
* BASED ON SEASONALLY ADJUSTED DATA OF DEPARTMENTS OF COMMERCE AND LABOR.
△ PERSONAL SAVING AS A PERCENTAGE OF DISPOSABLE PERSONAL INCOME. ○ PRELIMINARY.
U.S. DEPARTMENT OF AGRICULTURE
NEG. ERS 8518-73 (2) ECONOMIC RESEARCH SERVICE


MAJOR SOURCES OF DEMAND
BIL. OF CURRENT DOLLARS
1000
750
500
250
0
Gross National Product
CONSUMPTION△
INVESTMENT○
GOVERNMENT†
1960
1964
1968
1972*
QUARTERLY DATA AT SEASONALLY ADJUSTED ANNUAL RATES. *PRELIMINARY. △PERSONAL EXPENDITURES.
†GOVERNMENT PURCHASES OF GOODS AND SERVICES. ○GROSS PRIVATE DOMESTIC INVESTMENT PLUS NET EXPORTS.
U.S. DEPARTMENT OF AGRICULTURE
NEG. ERS 1492-73 (2) ECONOMIC RESEARCH SERVICE

THE DEMAND AND PRICE SITUATION

CONTENTS

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Approved by
Outlook and Situation Board
and Summary released
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The *Demand and Price Situation* is published in February, May, August, and November.

SUMMARY

Farmers will attain near-record net farm incomes in 1973. Crop prices will benefit from continued strong export demand, while livestock and livestock product prices will reflect only moderately larger supplies in the face of strong consumer demand. In the first half of 1973, with most livestock and crop supplies virtually unchanged from year-earlier levels, prices may show sharp increases over comparable periods in 1972. Prices should ease to year-earlier levels in the second half of 1973 as livestock supplies expand and the increased grain production reflects changes in government programs. Prices for the year will average above 1972 levels.

Marketing receipts will likely be up around $5 billion, with gains for both livestock and crops. Direct government payments are likely to be down more than $1 billion as government programs are adjusted to encourage greater feed and food grain production. As a result, gross farm income in 1973 will increase $3½ billion over last year's level.

Farm production expenses may increase by a faster rate than gross income in 1973. With feed and feeder livestock prices up sharply in early 1973 and wage-price controls eased, production expenses will probably increase more than they did last year. Thus, net farm incomes will be close to $19 billion, second only to the $19.2 billion in 1972.

The outlook for wheat, feed grains, and soybeans is somewhat uncertain due to recently announced modifications in the wheat and feed grain programs. The January 1 special planting intentions report (conducted prior to the announcement of program modifications) indicated acreage increases over 1972 of 5% for feed grains, 15% for all spring wheat, and 5% for soybeans. Elimination of the required wheat set-aside and reduction of the set-aside requirements and the respective payment rates for the two feed grain options will free additional acres for crop production. The March 1 prospective plantings report, for release March 15, should indicate the potential impact of the modifications.

The expansion in the economy will gain momentum and maturity in 1973. Although there will be increased upward pressure on prices during the

year, real output will grow at a rate near the 6.5% of 1972. The outlook is for an acceleration in consumer spending, nonresidential fixed investment, and inventory accumulation.

Residential construction and consumer demand provided the primary growth impetus in 1972, but capital and inventory investment should claim that role in 1973. Higher short-term interest rates, along with rising wages and material costs, will cause a decline in new housing starts.

Significant gains in employment and continued increases in industrial production are in prospect for 1973. The pressure on Phase III controls will be periodically intense as approximately 4.7 million workers will be involved in wage negotiations in an environment of declining unemployment and slowing gains in labor productivity. The likelihood of near-capacity utilization in some key industries could bring added pressure.

Rising wage rates, increased employment, and large tax refunds will offset increased social security taxes and boost disposable personal income at a much faster rate than in 1972. Although the initial impact of the tax refunds has traditionally been an increase in savings, the consumer will have the ability to maintain the sharp increase in expenditures that came at the close of 1972. However, inflationary pressures and the unprecedented sharp rise in installment credit in 1972 may have dampening effects on consumer willingness to spend.

Higher farm and wholesale commodity prices point to a continuing rise in retail food prices in 1973. The acceleration of retail food prices over a year earlier will occur largely in the first quarter of 1973 before farm prices ease. For the year, the all-food retail price index will rise more than the 4.3% increase of last year.

Although the growth in the money supply is expected to slow and may put some upward pressure on short-term interest rates, a credit-crunch is not in prospect in the near future. The proposed 1974 Budget indicates that growth in Federal expenditures will be about the same as fiscal 1973 and the deficit may be cut substantially.

The international monetary situation remains unsettled, and prospects for U.S. trade are uncertain. Efforts to stabilize international monetary relationships will have an important bearing on developments in the U.S. economy.

Agricultural exports should continue to be the bright spot in the trade balance picture. Exports in the first half of fiscal 1973 totaled $5.17 billion and for fiscal year may be well above $10 billion. Two-thirds of the first half increase was due to increased volume, one-third to increased prices. Agriculture's contribution to the overall U.S. trade balance could be at an all-time high, around $3½ billion compared with $2 billion last year. The overall U.S. trade balance was in deficit by a record $6.4 billion for calendar 1972.

... Outlook for major farm commodities.

... *Broiler* output in the winter and spring will lag 1972. There is uncertainty about the second half due to the recent sharp increases in feed costs. Prices will continue strong particularly in the first half as red meat prices remain high.

... *Hog* slaughter will remain slightly below year-earlier levels in the first half of 1973 and then increase in the second half. Prices will remain above 1972 January-June prices through the first half and then decline below year-earlier levels in the second half.

... *Beef* supplies will be up moderately in the first half of 1973. A 4% increase in cattle on feed on January 1 suggests larger marketings through the spring. Prices will stay above the level of the first half of 1972 and then ease somewhat after midyear.

... *Turkey* production will be well above the 1972 levels in the first half of 1973. Despite larger output, prices are expected to average above 1972.

... *Egg* output will be down sharply early in the year and then gradually expand to near 1972 levels by the end of 1973. Prices will remain strong and average well above year-earlier levels.

... *Milk* output will be down slightly in 1973 with prices expected to average above last year.

... *Wool* prices, which are up sharply from a year ago, should remain firm during the spring and summer months.

... *Feed grain* prices have advanced sharply since November 1972. Record disappearance is likely to reduce carryover into 1973/74 a fourth below a year earlier. Prices should remain strong with some easing by late spring as supplies under loan are released to the market.

... *Wheat* disappearance may reach a new record volume as exports are currently estimated to be one-third above the old record. Carryover on July 1 may be around 440 million bushels. Prices rose from $1.32 at harvesttime to $2.38 in mid-December and January.

... *Soybean* usage will be roughly equivalent to the 1972 crop, resulting in tight supplies and minimum carryover stocks. Prices are setting new records with domestic and foreign demand strong.

... *Cotton* export prospects are much brighter and should help provide a market for 1972's sharply larger production.

... *Tobacco* use may be about the same as last year but will exceed the 1972 crop, resulting in a slight decline in carryover. With increased basic quotas for flue-cured and burley, output should increase.

... Record *citrus* supplies are in prospect; orange prices have averaged lower, but grapefruit prices are firm.

. . . Winter *fresh vegetable* production will likely be under year-earlier levels with prices in early 1973 averaging moderately higher.

. . . Supplies of major *processed vegetables*, excluding tomato products, are apparently slightly below the supplies of a year ago. Prices will remain firm and will be subject to Phase III scrutiny.

. . . The demand for softwood *lumber* and *plywood* may drop somewhat in 1973 if housing production falls as expected. However, continued growth in timber demand in other markets may offset some of the effects.

OUTLOOK CONFERENCE SCHEDULED FOR FEB. 20-22, 1973

The 1973 National Agricultural Outlook Conference has been set for Feb. 20 through 22, at the U.S. Department of Agriculture in Washington, D.C.

Central theme of the Conference will be "The Future Structure of Agricultural Production and Marketing." Such topics as the long-range expansion of demand for agricultural products, input requirements of the food industry, significant trends in organization and control of the food and fiber sector of the economy, impact of environmental developments on agricultural production and marketing, and future developments in the export market will be explored in depth.

The 1973 outlook for U.S. agriculture and the general economy will receive particular attention at the Conference. Sessions on the 1973 outlook for major commodities and rural family living will make up an important part of the Conference as usual. The Conference, sponsored by USDA's Economic Research Service and Extension Service, will feature presentations and panel discussions by leading authorities in agriculture and business.

OUTLOOK 73

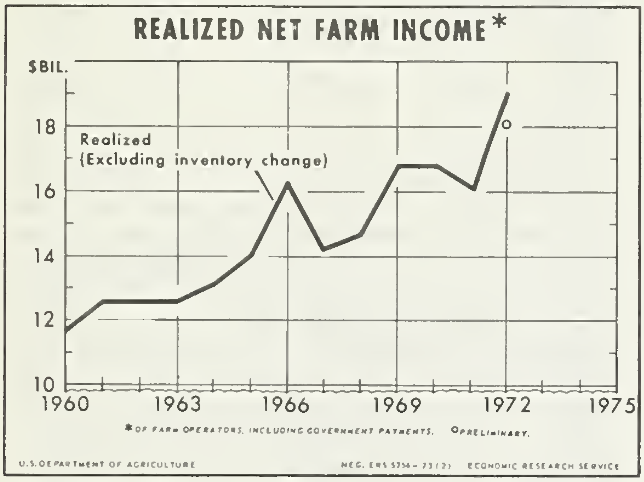
Table 1.--Selected measures of economic activity

Item	Unit	Year 1971	Year 1972 1/	1971 II	1971 III	1971 IV	1972 II	1972 III	1972 IV 1/
Gross national product	Bil. dol.	1,050.4	1,152.1	1,043.0	1,056.9	1,078.1	1,139.4	1,164.0	1,195.8
Disposable personal income	Bil. dol.	744.4	795.1	742.9	750.4	758.5	782.6	798.8	828.4
Personal consumption expenditures	Bil. dol.	664.9	721.1	660.4	670.7	680.5	713.4	728.6	746.2
Food spending (excluding alcoholic beverages)	Bil. dol.	117.3	124.6	116.9	117.3	118.3	124.0	125.5	128.2
Implicit price deflator for GNP	1958=100	141.6	145.9	141.3	142.4	142.9	145.3	146.2	147.2
Unemployment rate 2/	Percent	5.9	5.6	6.0	6.0	5.9	5.7	5.6	5.3
Cash receipts from farm marketings	Bil. dol.	53.1	58.5	52.1	53.4	54.9	56.9	58.1	62.5
Nonmoney income and government payments	Bil. dol.	7.0	7.9	7.0	7.0	6.9	7.9	8.0	8.1
Realized gross farm income	Bil. dol.	60.1	66.4	59.1	60.4	61.8	64.8	66.1	70.6
Farm production expenses	Bil. dol.	44.0	47.2	43.7	44.3	44.9	46.5	47.3	49.4
Farmers' realized net farm income	Bil. dol.	16.1	19.2	15.4	16.1	16.9	18.3	18.8	21.2
Agricultural exports 3/	Bil. dol.	7.8	9.4	1.9	1.9	1.9	2.1	2.1	3.1
Agricultural imports 3/	Bil. dol.	5.8	6.5	1.6	1.7	1.1	1.5	1.6	1.7
Volume of farm marketings	1967=100	111	111	83	113	151	83	110	149
Livestock and products	do.	107	107	105	109	114	105	108	112
Crops	do.	115	115	55	118	201	54	113	198
Prices received by farmers 4/	do.	112	126	112	112	115	122	128	132
Livestock and products	do.	116	133	114	116	120	128	136	140
Crops	do.	107	116	110	107	108	114	117	121
Prices paid by farmers 4/ 5/	do.	120	127	120	120	121	125	127	130
Wholesale price index, all commodities 4/	do.	113.9	119.1	113.8	114.7	114.8	118.2	119.9	121.2
Consumer price index, all items 4/	do.	121.3	125.3	120.8	122.0	122.7	124.7	125.8	126.9
All food	do.	118.4	123.5	118.4	119.6	119.4	122.6	124.5	125.4
Food at home	do.	116.4	121.6	116.6	117.7	117.2	120.5	122.6	123.4

1/ Preliminary. 2/ Unemployment as a percent of the civilian labor force. 3/ Actual values, not seasonally adjusted annual rates. 4/ Not seasonally adjusted. 5/ Including interest, taxes, and wage rates.
Quarterly data seasonally adjusted except as noted.

Departments of Agriculture, Commerce, and Labor.

Prices received for crops and for livestock and livestock products in 1973 should average above 1972 levels. Prices are expected to show considerable strength in the early part of 1973 and then ease to year-earlier levels in the second half. Marketing volume will also increase and help boost cash receipts for the year. Crop prices will benefit from the record export demand, while livestock and livestock product prices reflect slightly smaller supplies in the early part of the year. As grain production increases, reflecting changes in government programs, and livestock supplies expand, prices received by farmers will likely ease.



REALIZED NET FARM INCOME*

The higher prices received and increased marketings imply another significant boost in gross farm income, but production expenses may expand at an even faster rate, particularly with Phase II controls eased. With prices paid rising sharply and direct government payments expected to be down more than $1 billion, the outlook is for a net farm income just below the record of 1972.

Prices received by farmers, change from a year earlier[1]

Month	All crops	Livestock and products
	Percent	*Percent*
January 1972	8.8	14.5
February	4.8	12.0
March	0	12.2
April	3.7	9.6
May	4.5	13.2
June	2.7	15.9
July	6.4	19.3
August	11.2	15.4
September	12.5	17.1
October	9.4	16.9
November	10.1	16.0
December	17.6	18.9
January 1973	18.0	21.4

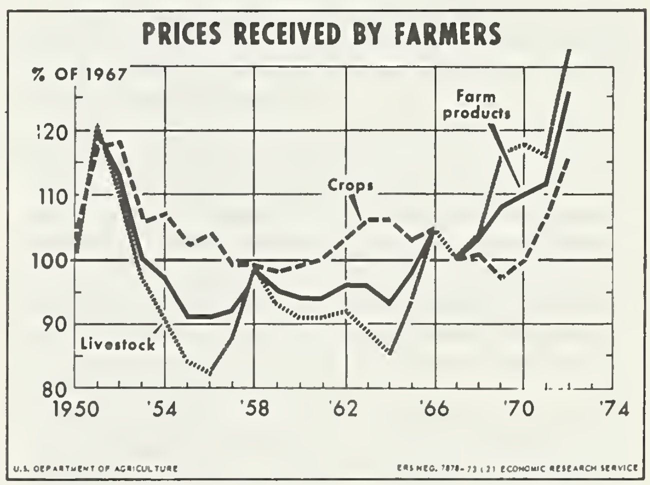
[1] Percent changes computed from indices on 1967 base.

Domestic Demand Firm

Rising wage rates, increased employment, and tax refunds will provide consumers with the ability to continue buying in 1973, but inflationary pressures on food prices and the end of Phase II may curb their willingness to buy to some extent. Disposable personal income will likely rise around 9.5% in 1973 despite a substantial increase in the social security tax.

Demand for food and other consumer products in 1973 will continue to expand strongly. Purchases of food, alcohol, clothing, shoes, and tobacco should be well above the 1972 level. Expenditures for clothing, shoes, and tobacco totaled $74.8 billion in 1972, 9% above 1971. Purchases of food and alcoholic beverages increased 6.2% to $144.8 billion.

Consumer outlays for food in the fourth quarter of 1972 were at a $128 billion annual rate, an 8.3% increase over a year earlier. Expenditures for food will be around 7-8% higher in 1973, due to the increased quantity purchased and the continued rise in food prices.



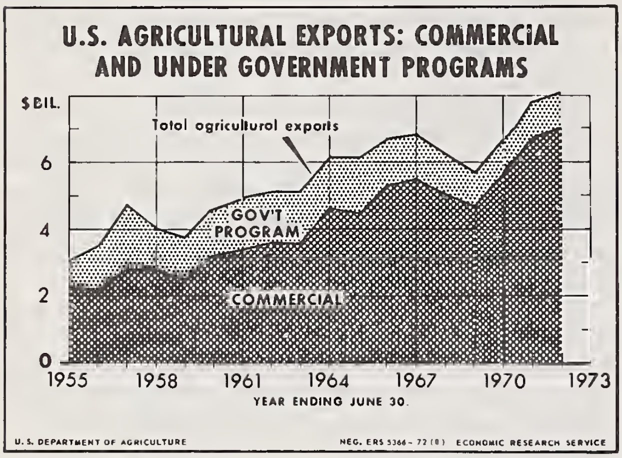
PRICES RECEIVED BY FARMERS

Retail prices of all food in 1972 advanced 4.3% over 1971 with food at home increasing by 4.5%. Red meat products proved to be the major factor, increasing by 10.7%. Retail prices for all food may increase around 6% in 1973. Livestock products will once again be the major contributor to the increase as supplies barely keep pace with burgeoning demand.

Per capita food consumption also is expected to increase slightly in 1973 with larger consumption of animal products providing most of the increase.

Exports and Imports of Agricultural Products

Strong export demand should continue at least in the first half of 1973 as sales commitments established in 1972 are fulfilled. Total agricultural exports are expected to well exceed the $10 billion level for fiscal 1973, up from the 1972 record of $8.1 billion. The outlook for fiscal 1974 is somewhat uncertain due to undetermined foreign production and demand, but should be high compared to most recent years.



U.S. agricultural exports in July-December 1972 totaled a record $5.17 billion, over one-third above the $3.81 billion for the same period a year ago when dock strikes affected some movements. Higher prices accounted for one-third of the value increases. Grains and products were up $902 million and accounted for over two-thirds of the total increase. Substantial increases also occurred for soybeans, cattle hides, variety meats, tobacco, vegetables, fruits, and nuts. Exports of cotton, dairy products, animal fats and vegetables oils were down from a year earlier. Exports of wheat and flour advanced to over 13.6 million metric tons from the 8.0 million a year earlier while feed grain exports rose to 16.2 million metric tons compared with 9.2 million for the same period in 1971. The top market for both of these categories was the USSR, which took 2.7 million metric tons of wheat and 1.9 million metric tons of feed grains in July-December. Soybean meal exports were about 0.2 million short tons below the level of a year earlier. However, higher prices raised the value over 16%. Cotton exports were off to a slow start due to the small harvest a year earlier and a late 1972 harvest, but should increase, since 1972 production was up nearly 3 million bales. Unmanufactured tobacco exports for July-December were up 77 million pounds over year-earlier levels. U.S. exports of cattle hides, riding the crest of sharply higher prices, more than doubled to around $178 million and accounted for most of the gain in animal products.

U.S. agricultural exports, value of major commodities

Commodity	July-December 1971	July-December 1972[1]	Percentage change
	Million dollars	*Million dollars*	*Percent*
Animals and animal products	493	585	19
Cotton	242	216	-11
Feed grains, excluding products	506	909	80
Fruits	189	236	25
Soybeans	701	816	16
Tobacco, unmanufactured	242	344	42
Vegetables	99	118	19
Wheat and flour	498	913	83
Rice	127	209	65
Other	715	825	15
Total exports	3,812	5,171	36

[1] Preliminary.

U.S. agricultural imports in calendar 1972 rose 11% to $6.5 billion with more than two-thirds of the increase due to higher prices. The volume index advanced 4%. The July-December imports totaled $3.2 billion compared with $2.8 billion a year earlier.

Competitive (supplementary) farm-product imports for 1972 totaled $4.2 billion, 15% larger than the 1971 value. Volume increased by 9%. Livestock, meats, dairy products, fruits, nuts, vegetables, and wines accounted for most of the growth. Relaxation of restraints on beef imports in March and their suspension in July cleared the way for more imports.

U.S. agricultural imports, value of major commodities

Commodity	July-December 1971	July-December 1972[1]	Percentage change
	Million dollars	*Million dollars*	*Percent*
Supplementary			
Animals and animal products	783	994	27
Fruits	64	78	22
Oilseeds and oil products	86	92	7
Sugar and molasses	426	421	-1
Tobacco, unmanufactured	83	74	-11
Vegetables	84	119	42
Wines and malt beverages	109	137	26
Other	167	215	29
Total	1,802	2,130	18
Complementary			
Bananas	86	95	10
Cocoa and chocolate	104	91	-12
Coffee	596	690	16
Rubber	106	94	-11
Other	141	153	9
Total	1,033	1,123	9
Total imports	2,835	3,253	15

[1] Preliminary.

Higher prices boosted the value of noncompetitive (complementary) imports 2% to $2.18 billion. Volume was up for bananas, roasted and ground coffee, cocoa products, essential oils, crude drugs, certain spices, and raw silk. Reductions occurred for cocoa beans, crude rubber, tea, carpet wool, and green coffee, although the latter two rose in value.

The U.S. agricultural trade balance of $1.9 billion in July-December 1972 was nearly double the total for the same period a year ago.

U.S. agricultural trade balance July-December 1971 and 1972

Item	1971	1972[1]	Percentage change
	Million dollars	*Million dollars*	*Percent*
Exports	3,812	5,171	36
Imports	2,835	3,253	15
Trade balance	977	1,918	96

[1] Preliminary.

Supply and Use of Agricultural Commodities

Total use of agricultural commodities outpaced new production based on calendar 1972 statistics. Imports were running sharply higher, but not enough to prevent a drawdown of stocks.

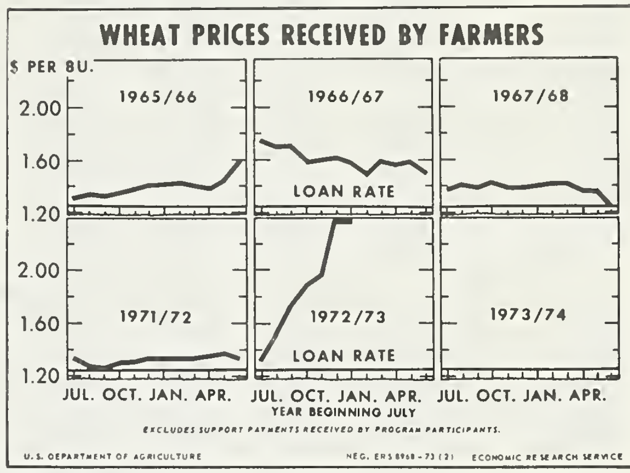
Exports accounted for almost all of the increased use, rising nearly 15% over 1971. Domestic use expanded slightly in spite of a 16% decline in military food use. Civilian food use continues to account for three-fourths of the total use while exports approached 16% of the total.

Total agricultural production was essentially unchanged from a year earlier as small declines in livestock production were offset by increases in crop production. Increases in the production of cattle and calves and poultry could not offset sharp declines in hog production. However, increases in soybean and cotton production did offset declines in feed and food grains.

While the use of livestock commodities remained near the 1971 level, use of crop commodities rose 3.5%, largely due to a 17% increase in crop commodity exports.

Grain Demand Strong

U.S. wheat supplies for 1972/73 were 2.4 billion bushels, the largest since 1961/62. However, prospects for record disappearance currently dominate the U.S. wheat scene. Exports, estimated at 1,150 million bushels, will surpass the old record by almost a third. Huge shipments to the USSR, which alone will account for more than one third of the total wheat exports are the big factor. Sharply rising prices have cut into wheat feeding, although a substantial amount of the early crop was purchased at low harvesttime prices. Total wheat feeding is estimated at 225 million bushels. Total disappearance is expected to reach a record of nearly 2 million bushels, 23% above the previous record, and result in a sharp drawdown in stocks to around 440 million bushels by the summer of 1973.



Wheat prices, reacting to the prospective record disappearance, rose from a harvesttime low of $1.32 a bushel to $2.38 in mid-December and January. Prices have eased but are expected to remain strong for the remainder of the season.

In moves designed to assure adequate wheat supplies to meet the growing market demand, the U.S. Department of Agriculture has announced (1) the elimination of the required set-aside requirement under the 1973 wheat program, except for those producers who elect to participate in the voluntary set-aside, and (2) that no outstanding loans on wheat will be extended beyond current maturity dates. As of December 31, 1972, about 300 million bushels were under CCC loan.

First reports of the 1973 winter wheat crop indicate a 1% increase in seeded acreage and a prospective 8% larger production. The January prospective plantings report suggested about a 15% increase in spring wheat plantings over last year. Since this survey was taken before the announcement of the elimination of the required set-aside requirement, a larger increase in plantings is expected. Currently there is every indication that a record 1973 wheat crop is in store, barring poor weather.

The 1973 feed grain program, announced in mid-December and altered in late January, provides the basis for increased plantings of feed grains and soybeans to meet expanding demand. The program

Table 2.--Livestock, crop, and total farm commodities: Supply-use indexes by component and relationship of components to annual use, 1967-72 1/

Year	Supply: Net production	Supply: Imports 2/	Supply: Stocks 3/	Total annual use	Use: Domestic use: Food: Civilian	Use: Domestic use: Food: Military	Use: Domestic use: Nonfood: Seed and feed	Use: Domestic use: Nonfood: Other	Use: Domestic use: Total	Use: Exports and shipments 4/
	A.--All farm commodities indexes: (1967=100) 5/									
1967	100.0	100.0	100.0	100.0	100.0	100.0	---	100.0	100.0	100.0
1968	101.2	111.8	101.6	102.0	102.4	97.9	---	101.5	102.2	100.5
1969	101.2	101.6	103.9	101.4	104.4	83.4	---	97.1	103.1	90.7
1970	99.4	103.5	105.3	103.9	105.8	70.2	---	90.4	103.3	107.7
1971	107.6	106.7	99.4	106.1	108.8	62.9	---	88.6	105.6	109.3
1972 6/	106.1	113.0	103.9	109.0	109.8	53.2	---	89.6	106.4	125.6
	Livestock commodities (1967=100)									
1967	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1968	100.5	114.1	123.9	102.3	102.2	99.8	96.6	109.6	102.3	106.8
1969	100.9	110.6	110.5	102.6	103.1	85.3	100.0	101.6	102.5	103.9
1970	103.4	114.2	95.8	104.5	105.8	71.6	102.0	91.2	104.4	107.9
1971	106.2	102.9	102.4	106.9	108.7	61.8	100.1	75.6	106.4	128.8
1972 6/	105.6	116.6	99.7	107.1	109.3	50.9	104.5	70.6	106.6	127.7
	Crop commodities (1967=100)									
1967	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1968	102.9	111.1	100.9	102.4	103.0	90.8	104.0	99.7	102.9	99.8
1969	104.4	98.8	103.7	102.9	107.3	76.3	108.3	96.2	106.0	89.2
1970	100.5	100.2	105.6	106.1	105.8	64.9	111.5	90.2	105.7	107.6
1971	111.4	107.9	99.3	108.0	108.9	67.2	113.8	91.4	108.3	107.1
1972 6/	112.1	111.9	104.0	114.5	111.0	61.8	119.9	93.7	112.1	125.3
	B.--All farm commodities: Percentage of annual use 5/									
1967	89.9	11.0	-.9	100.0	74.7	1.7	---	9.9	86.3	13.7
1968	89.1	12.1	-1.2	100.0	75.0	1.6	---	9.9	86.5	13.5
1969	89.6	11.1	-.7	100.0	76.9	1.4	---	9.5	87.8	12.2
1970	85.9	11.0	3.1	100.0	76.1	1.1	---	8.6	85.8	14.2
1971	91.2	11.1	-2.3	100.0	76.6	1.0	---	8.3	85.9	14.1
1972 6/	87.5	11.4	1.1	100.0	75.3	.8	---	8.1	84.2	15.8
	Livestock commodities: Percentage of annual use									
1967	96.3	4.5	-.8	100.0	90.2	2.3	2.0	3.1	97.6	2.4
1968	94.6	5.0	.4	100.0	90.1	2.2	1.9	3.3	97.5	2.5
1969	94.7	4.8	.5	100.0	90.6	1.9	2.0	3.1	97.6	2.4
1970	95.3	4.9	-.2	100.0	91.2	1.6	2.0	2.7	97.5	2.5
1971	95.6	4.3	.1	100.0	91.7	1.3	1.9	2.2	97.1	2.9
1972 6/	95.0	4.9	.1	100.0	92.1	1.1	2.0	2.0	97.2	2.8
	Crop commodities: Percentage of annual use									
1967	88.1	12.6	-.7	100.0	33.8	.5	35.5	12.0	81.8	18.2
1968	88.5	13.7	-2.2	100.0	34.0	.5	36.1	11.7	82.3	17.7
1969	89.4	12.1	-1.5	100.0	35.2	.4	37.4	11.2	84.2	15.8
1970	83.5	11.9	4.6	100.0	33.8	.3	37.3	10.2	81.6	18.4
1971	90.8	12.6	-3.4	100.0	34.1	.3	37.4	10.2	82.0	18.0
1972 6/	86.3	12.3	1.4	100.0	32.8	.3	37.2	9.8	80.1	19.9

1/ Quantities weighted by constant farm prices. Domestic use allocated on the basis of value of processed products. Net concept excludes domestic use of feed and seed to avoid double counting of livestock products. On 50-State basis. 2/ Includes shipments from U.S. Territories. 3/ Farm (other than live animals), commercial, and government program holdings. Section A: Derived by applying annual changes to January 1961 level to avoid inconsistent coverage. Section B: Data represent stock changes; negatives indicate stock increase; positives signify withdrawals. 4/ Includes shipments to U.S. Territories. 5/ Feed and seed omitted from all commodities to avoid double counting of use through livestock. 6/ Preliminary.

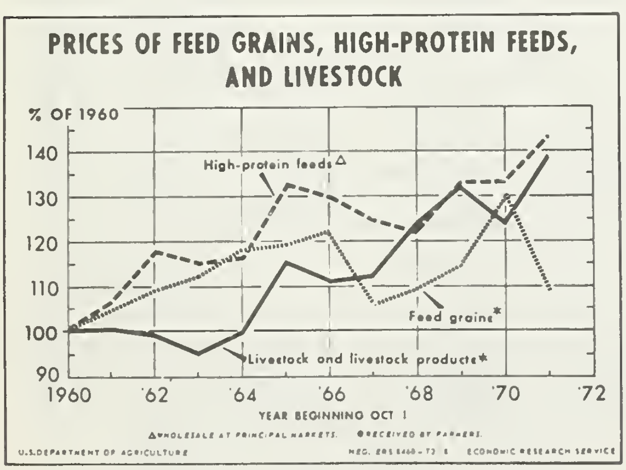
Stocks of grains

Grain and position	January 1, 1972	January 1, 1973	Percentage change 1973/72
	Million tons	*Million tons*	*Percent*
TOTAL FEED GRAINS			
On farms[1]	124	122	-2
Off farms[2]	52	49	-6
Total	176	171	-3
	Million bushels	*Million bushels*	*Percent*
WHEAT			
On farms[1]	694	507	-27
Off farms[2]	853	886	4
Total	1,547	1,393	-10
SOYBEANS			
On farms[1]	398	433	9
Off farms[2]	491	437	-11
Total	889	870	-2

[1] Estimates of the Crop Reporting Board. [2] Including grain owned by Commodity Credit Corporation.

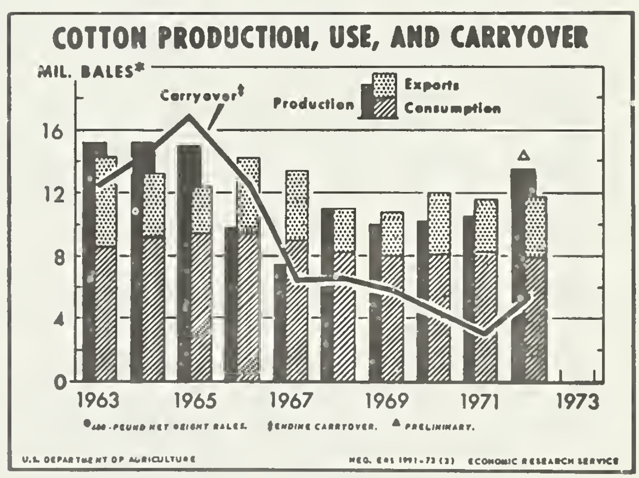
Totals may not add due to rounding.

contains two basic options. A 25% required set-aside option (reduced from 30%) provides the participant a payment of 32¢ per bushel for corn, 30¢ for grain sorghum, and 26¢ for barley on production from half the base acreage with no restrictions on 1973 feed grain acreage. A zero set-aside option (reduced from 15%) provides the participant with a lower payment (15% for corn, 14% for sorghum, and 12% for barley) but limits 1973 feed grain acreage to last year's level. The March 1 prospective plantings report, to be released March 15, should indicate the impact of the modifications as well as other changes in farmers' intentions.



Feed grain supplies for 1972/73 are placed at 246 million tons, about 2% above last year's large volume. The crop of 198 million tons was down 10 million from the 1971 record level. Prospects for increased acreage with a normal growing season point to a record 1973 crop. There is exceptionally strong demand both from domestic and foreign sources and feed grain prices received by farmers since October have averaged 25% above the low levels of a year earlier. Some easing in prices may occur by late spring as the supplies under loan are redeemed by farmers and the CCC actively markets grain. Carryover into 1973/74 is estimated about a fourth below a year earlier.

U.S. soybean supplies for the 1972/73 marketing season are estimated at 1,348 million bushels, about 6% above last season. With usage roughly equal to the 1972 crop of 1,276 million bushels, supplies will remain tight and carryover next fall will again be at low levels. Soybean prices during September-January averaged $3.56 per bushel and are expected to remain strong. Based on early January planting intentions, farmers will plant 49 million acres of soybeans in 1973, up 5% from last year. However, now that restrictions for feed-grain set-aside acreages have been relaxed and with plantings allowed on wheat set-aside, a further substantial increase in soybean acreage may occur. Thus, 1973/74 soybean supplies may exceed the record 1.46 billion bushels of 1969/70.



The U.S. cotton outlook for the remainder of the 1972/73 marketing season is highlighted on the supply side by 1972's sharply larger production and on the demand side by much brighter export prospects. Exports are expected to total about 4½ million bales, up from 3.4 million last season. In contrast, domestic cotton mill consumption may be the lowest since the late 1940's, primarily reflecting increasing competition from man-made fibers as the result of last season's tight cotton supplies. With the 1972 crop 29% above the 1971 level, the 1972/73 carryover will likely total about 4.7 million bales, up from last summer's 20-year low of 3.4 million.

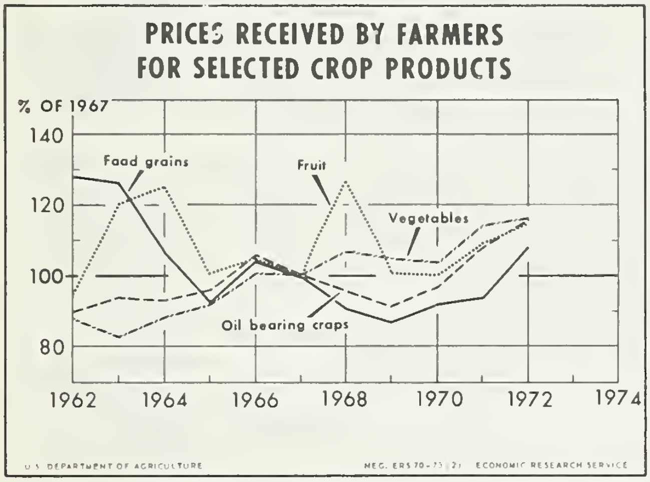
Table 3.--Supply-distribution and season average prices of selected major crops, 1969/70, 1970/71, 1971/72, and 1972/73

Item	Unit	Beginning stocks	Imports	Produc- tion	Total supply	Domestic use	Exports	Total use	Ending stocks	Season average price 1/
Feed grains										
1969/70	Mil. tons	50.2	0.4	177.4	228.0	158.2	21.2	179.4	48.6	2/1.15
1970/71	Mil. tons	48.6	.4	160.1	209.1	155.2	20.7	175.9	33.2	2/1.33
1971/72p	Mil. tons	33.3	.5	207.7	241.4	165.7	27.3	193.0	48.4	2/1.08
1972/73e	Mil. tons	48.4	.3	197.7	246.4	177.2	33.2	210.4	36.0	2/1.29
Wheat										
1969/70	Mil. bu.	816.7	3.2	1,442.7	2,262.6	771.6	606.1	1,377.7	884.9	1.24
1970/71	Mil. bu.	884.9	1.1	1,351.6	2,237.6	768.6	737.5	1,506.1	731.5	1.33
1971/72p	Mil. bu.	731.5	1.0	1,617.8	2,350.3	854.7	632.5	1,487.2	863.1	1.34
1972/73e	Mil. bu.	863.1	1.0	1,544.8	2,408.9	818.0	1,150.0	1,968.0	440.9	1.67
Rice										
1969/70	Mil. cwt.	16.2	.2	91.9	108.3	3/35.0	56.9	91.9	16.4	4.95
1970/71	Mil. cwt.	16.4	1.5	83.8	101.7	3/36.6	46.5	83.1	18.6	5.17
1971/72p	Mil. cwt.	18.6	1.1	85.8	105.5	3/37.1	57.0	94.1	11.4	5.34
1972/73e	Mil. cwt.	11.4	1.5	85.2	98.1					6.60
Soybeans										
1969/70	Mil. bu.	325.5	0	1,133.1	1,458.7	796.3	432.6	1,228.9	229.8	2.35
1970/71	Mil. bu.	229.8	0	1,127.1	1,356.9	824.3	433.8	1,258.1	98.8	2.85
1971/72p	Mil. bu.	98.8	0	1,176.0	1,274.8	786.6	416.2	1,202.8	72.0	3.01
1972/73e	Mil. bu.	72.0	0	1,276.3	1,348.3					3.49
Cotton 4/										
1969/70	5/ Mil. bales	6.5	6/.1	10.0	16.6	8.0	2.9	10.9	5.8	21.09
1970/71	5/ Mil. bales	5.8	6/.1	10.3	16.2	8.1	3.9	11.9	4.3	21.98
1971/72p	5/ Mil. bales	4.3	6/.1	10.4	14.8	8.2	3.4	11.6	3.4	28.23
1972/73e	5/ Mil. bales	3.4	6/.1	13.6	17.1	7.8	4.5	12.3	4.7	7/26.8

1/ Dollars per bushel, except cotton which is cents per pound and rice which is dollars per hundredweight. 2/ Price for corn. 3/ Includes the following statistical discrepancies: 1969/70, 1.9, 1970/71, 2.1. and 1971/72, 1.7 mil. cwt. 4/ Production based on ginnings between August 1 and July 31. 5/ 480 pound net weight bales. 6/ Includes city crop. 7/ Average price to January 1, 1973, with no allowance for unredeemed loans.

1972/73 based on recent crop reports and disappearance estimates. Details may not add to totals due to rounding.
p. Preliminary. e. Estimated.

U.S. tobacco supplies are about 3% below the 1971 marketing year, primarily due to reduced beginning stocks offsetting the 2% larger 1972 crop. Tobacco use is expected to stay about the same as last season, but exceed the 1972 crop. Carryover at the close of the 1972/73 marketing year could decline slightly from last year's 3.5 billion pounds. Grower prices for flue-cured tobacco averaged a record 85.3 ¢ per pound for the 1972 crop year. Burley tobacco prices have averaged slightly below last year's record high. With increased basic quotas for flue-cured and burley, total output this season should rise.



Record citrus supplies are in prospect despite serious freeze damage to oranges and lemons in California. Total U.S. orange production during the 1972/73 season is estimated at 222 million boxes, 16% more than last season's output. While grapefruit supplies are down about 1% from last year's record crop, lemon production is expected to be above the 1972 level. Grapefruit prices have averaged close to year-earlier levels for most of the season, but have declined recently. Orange prices, except for California, have been below those of last season.

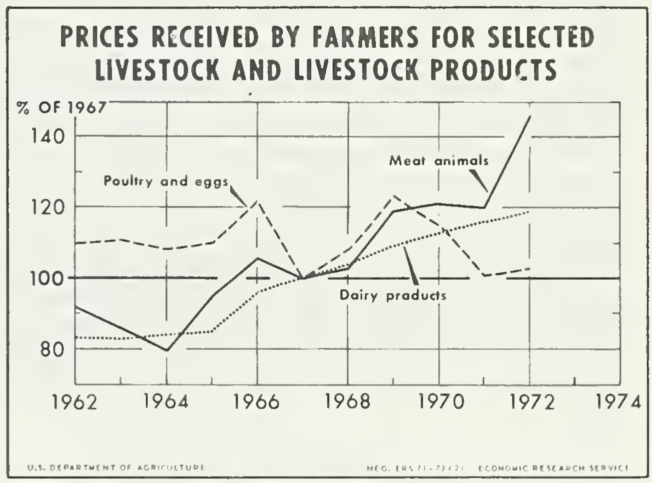
Supplies of nearly all processed non-citrus fruit items are smaller than last year and in some cases the lowest in over 10 years. The tight supply situation and the higher raw product prices paid by most processors are reflected in higher retail prices. Fresh apple prices are slightly to sharply higher than a year ago as a result of a smaller total harvest last fall.

The potential winter vegetable production from 13 crops will likely be 4% less than in 1972, largely due to sharply reduced Florida winter tomato and sweet corn acreage. Prices for the early part of 1973 may average moderately higher than a year earlier.

The combined available supply of all the major processed vegetables, excluding tomato products, is slightly less than the moderate supply of a year earlier. With supplies of fresh potatoes the lightest in 4 years, grower prices have been running more than a third higher than last year in the 3 major regions. Sweetpotato prices should hold above their 1972 level. With export demand expected to hold fairly strong, dry bean prices should be generally well maintained or even show some further gain by mid-1973.

Output and Prices of Livestock

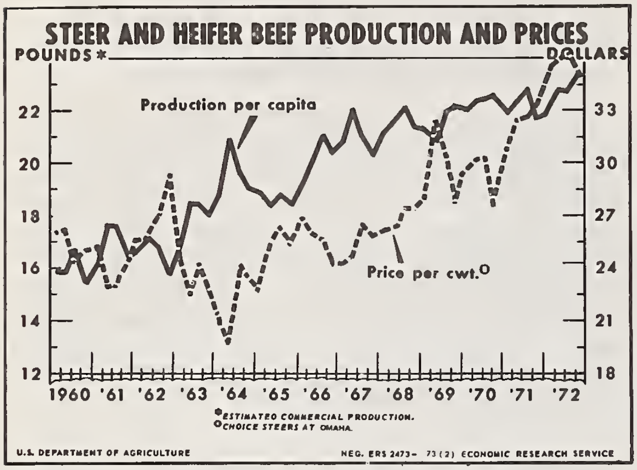
Production of livestock and products in 1972 averaged around the 1971 levels. Total livestock production was up a little at midyear, largely due to expanded poultry production, but pork output remained sharply down in the third quarter and poultry expansion slowed, resulting in a return to year-earlier levels in the second half. Prices received by livestock producers rose steadily throughout the year as consumer demand remained strong. For the year, prices received for livestock and products averaged around 15% above 1971.



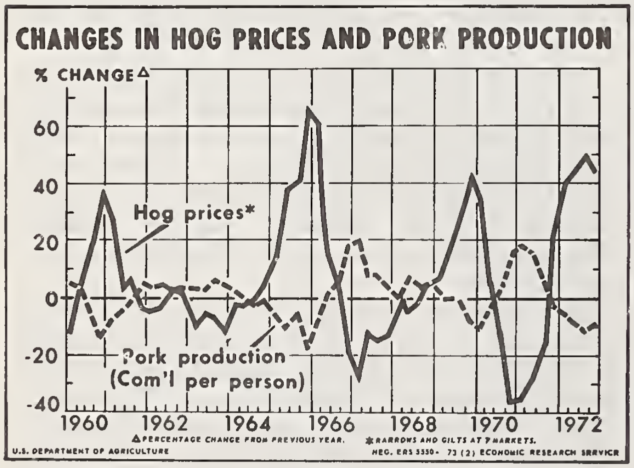
The outlook for 1973 is for an expansion in total production with most of the increase to take place in the last part of the year. Pork production should rise above a year earlier by midyear and reinforce the steady expansion that is likely to occur in beef production. With consumer demand remaining strong, livestock prices will be firm but ease some after midyear.

Fed cattle marketings this winter will continue larger than a year earlier. Producers plan to market 7% more fed cattle in the winter. Marketings in the spring are expected to remain above last year's rates. This is in line with the 9% larger number of steers and heifers on feed as January 1, in the weight classes that normally account for half the marketings in the spring. However, cow beef production will increase little if any and cattle slaughter weights will be lighter. Steer prices advanced sharply in January to a

record monthly average of $40.42 per 100 pounds for Choice steers in Omaha. This was 13% above a year ago. The fed cattle market is expected to continue near recent levels in coming months with prices averaging above 1972 levels.



Hog slaughter rates in the first half of 1973 will be slightly below year-earlier levels as the number of market hogs on farms on December 1 was down 3%. In the second half, slaughter will reflect the 6% prospective increase in December 1972-May 1973 farrowings. The 7-market average price for barrows and gilts in January was $32.65 per 100 pounds, $7.81 above a year ago. Given the prospective tight pork supplies in the first half of 1973 and increased supplies in the second half, prices are expected to average above year-earlier levels through mid-1973 and below year-earlier levels for the remainder of the year.



With the beginning sheep and lamb inventory in 1973 smaller than a year ago, slaughter rates will be below last year. Lamb prices, which held up well in 1972, are expected to continue above a year-earlier in the winter and spring.

Broiler output will lag year-earlier levels in late winter and early spring. The feed market, somewhat uncertain due to program modification, will likely dictate the eggs set and chicks placed in the spring and summer and thus affect output in summer and fall. Broiler prices will likely continue strong and average above year-earlier levels in the spring and summer.

Change from a year earlier in livestock-feed price ratios

Year	Beef steer-corn	Hog-corn	Broiler-feed	Milk-feed
	Pct.	*Pct.*	*Pct.*	*Pct.*
1971/70				
I	-13.5	-48.9	-12.9	-5.1
II	-8.3	-39.9	0	-5.3
III	15.8	-9.5	7.1	-1.8
IV	41.7	57.0	4.0	3.9
1972/71				
I	35.1	82.5	11.1	8.3
II	29.4	79.8	-3.4	6.9
III	12.1	56.6	6.7	4.2
IV	-9.6	16.3	3.8	-5.9

Egg output will be down sharply early in 1973, but may approach the 1972 levels by the end of 1973. Depressed egg prices during most of 1971 and 1972 caused producers to reduce laying flock size which as of January 1, 1973, was 6% below a year earlier. Prices have continued strong early this year and will continue well above the depressed levels of 1972 through the summer.

Turkey meat output during the seasonally light production months of the first half of 1973 is expected to be up 15% from year-earlier levels. Producers in 20 major producing States as of December 1 reported intentions to raise 4% more turkeys in 1973 than in 1972. Turkey prices will average above 1972 in the winter and spring as demand remains strong in an environment of increasing disposable incomes and relatively high red meat prices.

Milk production in 1973 will likely be under the 120 billion pounds of last year, as higher feed costs and below-average-quality forage will slow gains in milk output per cow and likely intensify herd culling. Milk prices received by farmers are expected to rise around 4-5% from the average of 1972, assuming the dairy support level continues at 75% of parity and there is no change in Federal milk order pricing.

Grower prices of shorn wool are up sharply from a year ago and probably will continue strong during the spring and summer months.

Table 4.--Production and prices received by farmers for major livestock and livestock products, 1970, 1971, 1972, and fourth quarters of 1971 and 1972

Item	Unit	Annual			Fourth quarter	
		1970	1971	1972 1/	1971	1972 1/
Production 2/						
Beef and veal.......	Mil. lb.	22,273	22,450	22,851	3/5,502	3/5,825
Pork...............	Mil. lb.	13,436	14,795	13,652	3/3,816	3/3,506
Lamb and mutton.....	Mil. lb.	551	554	542	3/ 137	3/ 137
Chickens............	Mil. lb.	8,660	8,720	9,320	3/1,929	3/2,022
Turkeys.............	Mil. lb.	1,757	1,809	1,960	3/ 645	3/ 697
Eggs................	Mil. lb.	9,189	9,386	9,257	2,368	2,247
Milk................	Bil. lb.	117.1	118.6	120.4	4/27.8	4/27.9
Prices received by farmers						
Cattle..............	Dol./cwt.	27.10	29.00	33.20	29.80	33.80
Hogs................	Dol./cwt.	5/22.70	5/17.50	5/25.20	19.30	27.90
Lambs...............	Dol./cwt.	26.40	25.90	28.70	25.30	28.10
Broilers............	Ct./lb.	5/13.6	5/13.7	5/14.2	12.5	14.1
Turkeys.............	Ct./lb.	22.6	22.1	22.2	22.4	23.0
Eggs................	Ct./doz.	5/39.1	5/31.4	5/30.8	31.0	37.0
All milk (sold to plants)............	Dol./cwt.	5.71	5.87	6.09	6.15	6.51

1/ Preliminary. 2/ Data for 50 States except where noted. Carcass weight production for red meats; ready-to-cook for poultry, and shell-weight for eggs. 3/ Data for 48 States. Commercial slaughter only. 4/ Based on monthly data. 5/ Marketing year average December-November.

Record Farm Income

Farmers ended 1972 with record farm incomes. Strong domestic demand for livestock and huge grain exports led to sharply higher farm prices and marketing receipts.

For 1972, gross farm income was around $66½ billion, up more than $6 billion from 1971. Most of the gain came from the surge in cash receipts from farm marketings, although government payments rose by almost $1 billion. Production expenses rose at a slightly faster rate than in 1971, to just over $47 billion. Still, the rise in income was much sharper and realized net income in 1972 was a record high of $19.2 billion, up around $3 billion from 1971.

Some easing in net farm income from the record 1972 level appears likely in 1973. Farm prices will probably remain high, particularly in the first half of 1973, but in the latter part of 1973 they may average around year-earlier levels. Marketing receipts are expected to be up around $5 billion, with the gain evenly divided between livestock and crop sectors. The volume of livestock marketings will be up, particularly after midyear as hog supplies expand. Crop marketings in calendar 1973 will reflect record 1972/73 crops, as well as government program decisions and export developments during the 1973/74 marketing year. In contrast to 1972 when government payments rose sharply, payments will be lower in 1973.

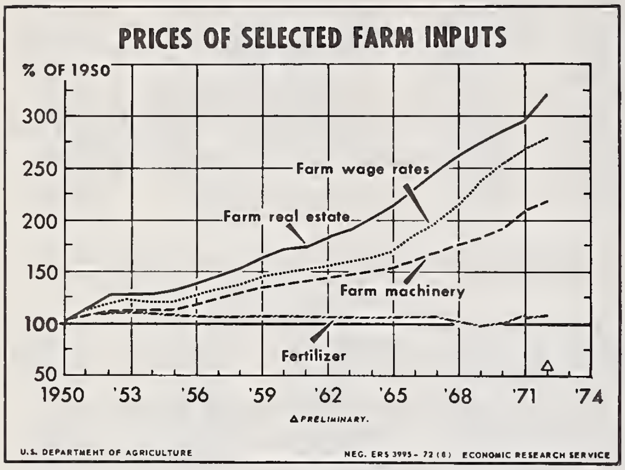
Although gross farm income will increase around $3½ billion over 1972, production expenses will likely continue to rise and may offset this anticipated gain. As a result, realized net farm income in 1973 may be just below $19 billion, the second highest on record.

Farm Inputs

Prices paid by farmers for production items, interest, taxes, and wage rates rose around 6% in

1972. Among production items which increased 5.7%, the largest advance was for feeder livestock which showed an 18% increase in price over 1971. Interest expenses increased 9.4%, while taxes and wage rates advanced around 5½%.

In 1973 farm production expenses will continue their long-time rise and will likely outpace increases in gross farm income.



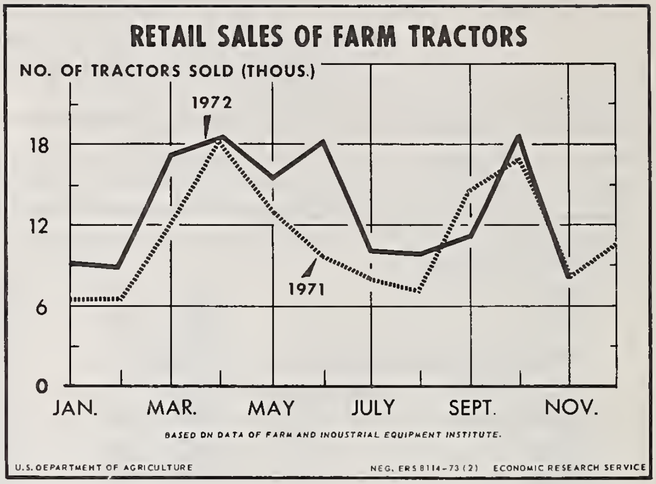
PRICES OF SELECTED FARM INPUTS

Farm wage rates (per hour without board or room) advanced about 9% from a year earlier to $1.98 on January 1, 1973. Wage increases occurred in all areas of the country, led by a 15% rise in the South Atlantic States. The East South Central and Pacific regions experienced increases of 9-9½%.

Fertilizer use set a record 41.3 million tons in the 12 months ended June 30, 1972. On a plant nutrient basis, however, the consumption of nitrogen and phosphate both dipped slightly as potash increased. A combination of competitive forces and price controls kept price changes slight in 1972 at both the producer and retail levels. Prices for nitrogen and potash are expected to be firm or edge slightly higher in 1973 while phosphate will likely exceed the price ceiling which was in force until mid-January.

The Farm and Industrial Equipment Institute reports that retail sales of farm tractors through November 1972 were up 20%, although sales in November declined 2.4% below a year earlier. Record farm incomes and strong demand for grains and soybeans are the main ingredients in the surge in tractor buying.

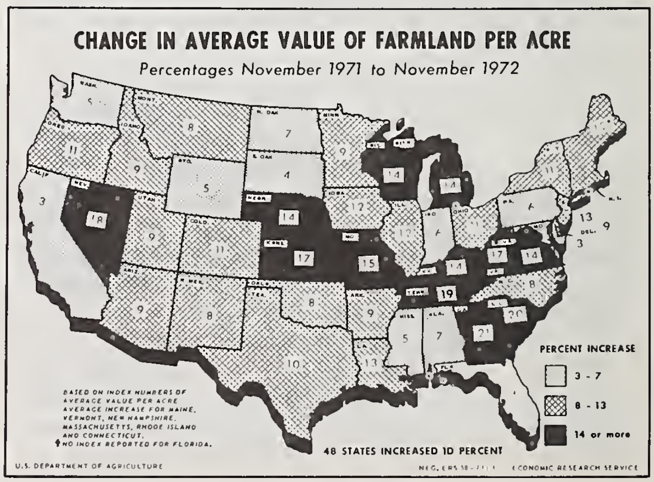
Retail sales of farm machinery other than tractors through November 1972 were mixed with the largest decline noted for corn pickers. Only balers and mower-conditioners showed significant increases, 12% and 8% respectively. In November, machinery sales showed some strength as only corn heads declined.



RETAIL SALES OF FARM TRACTORS

With farm income in 1973 expected to be the second highest on record and government programs encouraging expansion of acreage for wheat, feed grains, and soybeans, sales of farm tractors and machinery should remain firm. Phase III may hold the key to the real nature of the market since it will impact on interest rates and tractor and machinery prices.

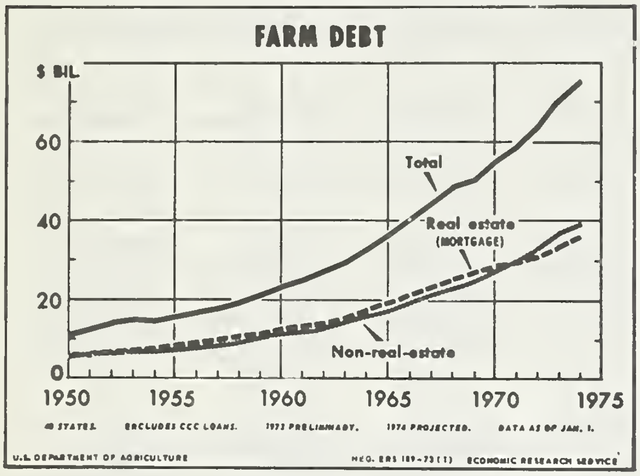
The per acre value of farmland increased 10% in the year ended November 1, 1972. This sharp increase reflects 2 years of highly favorable farm income, readily available credit, a slight downturn in the quantity of land offered for sale, and continuing strong nonfarm demand. Value increases in 1970 and 1971 averaged 3% and 5% respectively. The largest value per acre increases occurred in the Southeast and Appalachian regions with the Pacific region lagging far behind. The availability of long-term loans, together with farm income developments and inflation in the general economy, will be important factors affecting per acre values in 1973.



CHANGE IN AVERAGE VALUE OF FARMLAND PER ACRE

Total farm debt, excluding CCC loans, rose to $70.1 billion as of January 1, 1973—an increase of $5½ billion, much the same as the previous year. The need to acquire equipment to expand operations has resulted in a $2.9 billion increase in non-real estate debt, about one half of the total farm debt increase.

Although the favorable conditions for farm income and consumer demand are partially offset by the trends in interest rates, the 1973 outlook is for total farm debt to expand by about the same amount as in 1972. The growth should be about equally balanced between the types of debt.



Timber Products

Lumber, plywood, and pulpwood production and consumption in 1972 were up sharply. This reflected the increase in housing production and expanded activity in other major timber products markets such as nonresidential construction, manufacturing, and shipping. Prices of most timber products also rose sharply in 1972. Data available from trade sources indicate that these rising trends will continue in early 1973. Stumpage prices have followed the upward movements in product prices.

The demand for softwood lumber and plywood may drop somewhat in 1973 if housing production falls off as expected. This may lead to declines in the prices of some timber products, particularly softwood lumber and plywood. However, prospective increases in general economic activity, population, and income indicate that continued growth in timber demand in other markets may largely offset the effects of a housing slowdown.

Table 5.--General economic activity

(Quarterly data at seasonally adjusted annual rates)

Item	Year 1971	Year 1972 1/	1972 II	1972 III	1972 IV 1/
	Billion dollars				
Gross national product	1,050.4	1,152.1	1,139.4	1,164.0	1,195.8
Gross national product (1958 dollars)	741.7	789.7	783.9	796.1	812.4
Disposable personal income	744.4	795.1	782.6	798.8	828.4
Personal consumption expenditures	664.9	721.1	713.4	728.6	746.2
Durable	103.5	116.3	113.9	118.6	121.5
Nondurable	278.1	299.5	297.2	302.0	310.4
Services	283.3	305.4	302.4	308.0	314.3
Personal savings	60.9	54.8	50.1	50.8	62.4
Net government receipts	215.9	248.6	247.3	253.1	---
Government purchases	232.8	254.9	254.1	255.6	260.3
Federal	97.8	105.9	108.1	105.4	104.5
State and local	135.0	148.9	146.0	150.2	155.8
Deficit or surplus (on income and product accounts)	-16.9	-6.2	-6.9	-2.4	---
Gross private domestic investment	152.0	180.2	177.0	183.2	192.4
Fixed investment	148.3	174.3	172.0	175.2	182.4
Residential	42.6	53.9	52.8	54.4	56.8
Nonresidential	105.8	120.4	119.2	120.7	125.6
Change in business inventories	3.6	5.8	5.0	8.0	10.0
Gross retained earnings	109.9	123.7	124.8	125.1	---
Excess of investment	-42.1	-56.3	-52.2	-58.1	---
Net exports of goods and services	.7	-4.1	-5.2	-3.4	-3.0
Per capita disposable personal income (1958 dollars)	2,679	2,771	2,739	2,773	2,854
Total civilian employment (millions) 2/	79.1	81.7	81.4	82.0	82.6

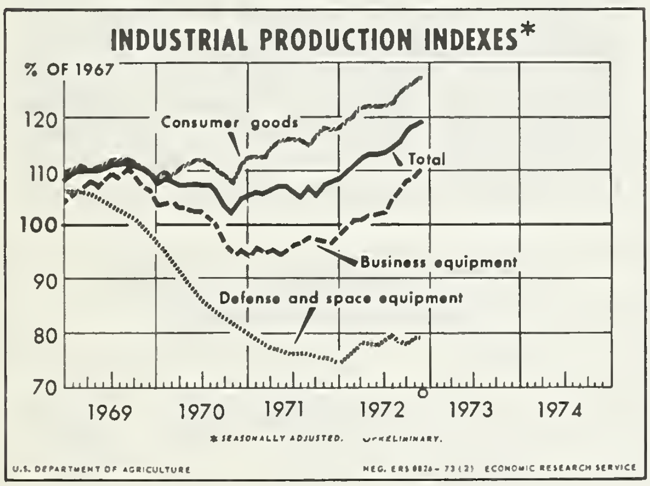
1/ Preliminary

2/ U.S. Department of Labor.

U.S. Department of Commerce.

The economic recovery which began in early 1971 continued in 1972 with gross national product up 9.7% over 1971. With increasing consumer demand leading the way in the first half of 1972, the economy broke out of its sluggishness, and a balanced period of growth occurred in the second half of 1972 with all sectors of the economy mutually reinforcing.

With consumer demand strong, nonresidential fixed investment surged upward by 13.8% for the year after some midyear sluggishness. As personal consumption advanced at an 8.5% rate, led by increases in durable goods expenditures of 12.4%, inventory accumulation quickened in the second half, indicative of some maturity in the recovery. With industrial production in 1972 up 6.8%, unemployment dropped to 5.2% by December, averaging 5.6% for the year. Disposable income was up 6.8% over 1971. The rate of inflation, the money supply, the Federal deficit, and the trade deficit appear to provide the uncertainty for 1973.



The international monetary situation remains unsettled and prospects for U.S. trade are uncertain. Efforts to stabilize international monetary relationships will have an important bearing on developments in the U.S. economy.

Year of Decision

The question for 1973 is not which direction the economy will be going, but rather how fast it will expand and for how much longer. The question of speed may be answered by midyear, while the duration may be determined in 1974.

Although the balance within the 1972 economy was not indicative of full maturity in the recovery cycle, short-term interest rates have begun to rise in response to increased capital investment and inventory accumulation. Whereas residential construction and consumer demand provided the impetus in 1972, capital and inventory investment should play that role in 1973. According to recent surveys, investment in new plant and equipment may increase 11-14% in 1973. Consumer demand will remain strong, but could be dampened somewhat by sharply rising prices and the past year's unprecedented sharp increases in installment credit. The rate of new housing starts will gradually decline as it must compete with manufacturing for factor resources, thus driving up wages and other construction costs.

Major GNP components, change from previous quarter

Item	1972 II	1972 III	1972 IV[1]
	Billion dollars	*Billion dollars*	*Billion dollars*
Total change in GNP	30.3	24.6	31.8
Consumption	17.3	15.2	17.6
Private nonresidential fixed investment	3.1	1.5	4.9
Housing	1.2	1.6	2.4
Inventory[2]	4.6	3.0	2.0
Net exports	-.6	1.8	.4
Government	4.7	1.5	4.7

[1] Preliminary. [2] See footnote text table below.

Phase III controls may face inflation of the demand-pull variety in mid-1973 after battling higher food prices early in the year. The pressures on Phase III controls will be intense periodically as approximately 4.7 million workers will be involved in wage negotiations in an environment of expanding markets, declining unemployment, and slowing gains in labor productivity. As excess plant capacity shrinks, an even greater burden could be placed on the controls.

Consumer savings will receive a boost in early 1973 as tax refunds, swelled by overwithholding in 1972, are held for a time and spent gradually over the year. Disposable income is expected to increase at a faster rate than in 1972 in spite of increased social security taxes.

Based on the recently proposed 1974 Budget, the Federal deficit will get a large amount of attention throughout calendar 1973.

The expansion in 1973 will be accelerated in most respects, but the question of duration will likely be answered in 1974, when policy makers attempt to slow the economy for smooth transition into a full-employment economy on a long-term growth path.

GNP and final sales, change from previous quarter

Year	GNP	Final sales	Inventory change[1]
	Billion dollars	*Billion dollars*	*Billion dollars*
1969: I	16.8	17.9	-1.2
II	16.5	15.4	1.2
III	18.2	15.7	2.5
IV	7.2	12.3	-5.1
1970: I	9.1	13.0	-4.0
II	13.7	9.1	4.8
III	14.6	14.7	-.1
IV	3.4	3.9	-.5
1971: I	33.7	34.4	-.8
II	19.6	17.9	1.7
III	13.9	19.2	-5.3
IV	21.2	20.8	.4
1972: I	31.0	32.2	-1.3
II	30.3	25.8	4.6
III	24.6	21.6	3.0
IV[2]	31.8	29.9	2.0

[1] Represents the difference in the change in business inventories. For example, the change in business inventories in the fourth quarter of 1972 ($10.0 billion) less the change in the third quarter of 1972 ($8.0 billion) equals plus ($2.0 billion).
[2] Preliminary.

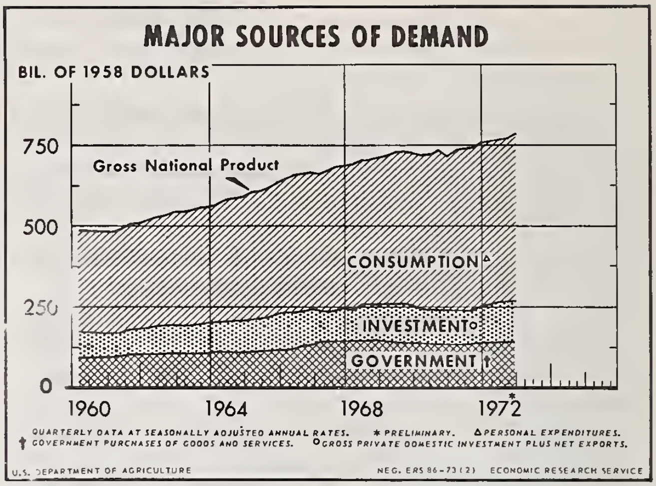
Phase III Controls

With the wholesale price index increasing 4.6% in 1972 and at least 4.7 million workers with contracts up for renegotiating in 1973, Phase III controls will likely come under severe tests throughout the year.

The Phase II controls came to an abrupt end when the Administration abolished the Price Commission and Pay Board in favor of "voluntary cooperation of the private sector in making reasonable price and wage decisions." Under Phase III, the guidelines for wage and price increases will be developed by the Federal Government with the advice of management and labor. Mandatory controls were retained for wage and prices in food processing and retailing, construction, and health care. However, the Administration requested Congress to extend the Economic Stabilization Act for another year and give them the authority to re-establish mandatory controls in situations where increases are clearly out of line. This has been called "the stick in the closet" by Treasury Secretary George P. Schultz.

Consumer Spending Supports Expansion

Although the savings rate increased sharply in the fourth quarter, personal consumption expenditures increased $56.2 billion in 1972, an 8.5% increase over 1971 compared with the 7.8% increase the preceding year. For the year, expenditures for nondurables and services increased about 7.7% and durable consumption was up 12.4%.



For 1973 the consumer may not be as eager to carry the burden of providing the major impetus for the boom. Although the capability to do so will be provided by increasing wages, higher employment, and large tax refunds, their willingness may be somewhat dampened by the end of Phase II and inflationary expectations in such key areas as food. In addition, the impact of the unprecedented increase in the use of installment credit in 1972 and the resultant sharp increase in consumer's outstanding installment debt may be felt early in 1973. Demand will remain strong but the rate of expansion will probably slow as the year progresses.

Major personal income components, change from previous quarter

Item	1972		
	II	III	IV[1]
	Billion dollars	*Billion dollars*	*Billion dollars*
Personal income	15.1	17.8	34.4
Wages and salaries	12.5	10.3	17.7
Manufacturing	5.3	2.5	7.3
Nonmanufacturing	5.5	5.1	7.4
Government	1.7	2.7	3.0
Other income	1.8	6.1	6.7
Transfer payments	1.4	2.1	10.8
Social insurance payments (minus)	.5	.7	.7
Personal tax payments	3.0	1.6	4.8
Disposable personal income	12.1	16.2	29.6
Personal outlays	17.6	15.5	18.0
Personal savings	-5.6	.7	11.6

[1] Preliminary.

Housing May Slow

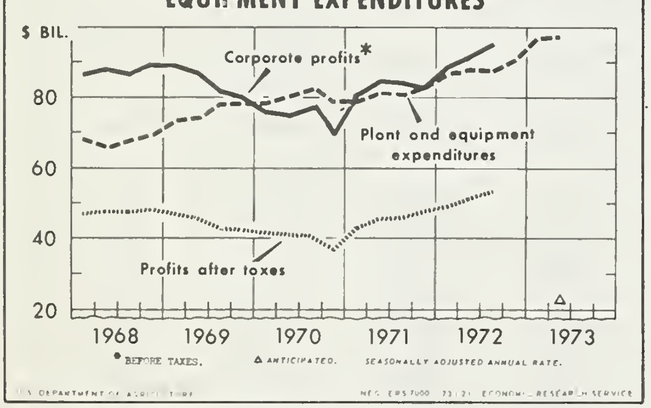
Expenditures for residential structures totaled $53.9 billion in 1972 reaching $56.8 billion on an

annual basis by the fourth quarter. The strength shown in the housing sector may not have been as surprising as it seemed since fixed business investment, the prime competitor of the housing sector for factor resources, showed some midyear sluggishness in responding to the expansion. While GNP advanced 4.9% from the first to the third quarter of 1972, nonresidential investment advanced only 4%. This differential indicated that the manufacturing sector was not putting heavy pressure on the available factor resources, thus giving the housing sector an opportunity to prolong its growth. However, preliminary fourth quarter figures indicate that the situation has changed as nonresidential investment increased 4.1% from the third quarter, compared to a GNP increase of 2.7%. With the differential in long and short-term interest rates expected to narrow, residential construction investment will likely weaken noticeably around midyear 1973. The suspension of low-income housing subsidies should not affect the currently ongoing projects and thus will have little impact until late in the year.

Investment Remains Strong

Investment in producers' durable equipment provides a key indication that a boom is in sight. This category of investment increased by 16% in 1972, providing impetus for increased production, employment, and inventory investment in the manufacturing sector. In real terms, producers' durable equipment investment rose by 13.5%.

CORPORATE PROFITS AND PLANT AND EQUIPMENT EXPENDITURES



Inventory investment, which was slow prior to midyear 1972, has expanded rapidly and reached a level of $10 billion by the end of the fourth quarter. Inventory accumulation typically speeds up during a recovery period, and this potential source of growth will probably be tapped in 1973.

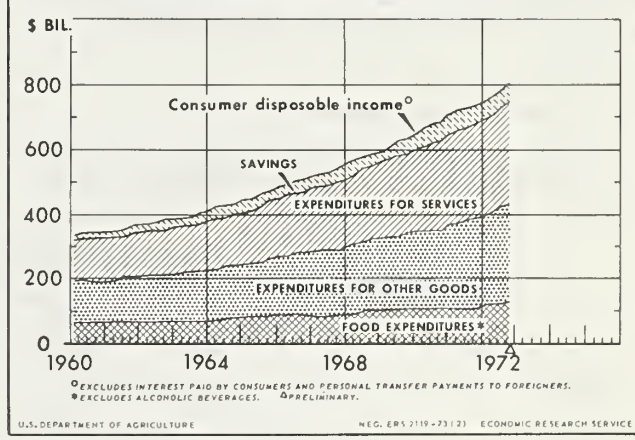
Government Receipts and Expenditures

Government expenditures grew 9.5% in 1972, as State and local Governments expanded their expenditures somewhat faster than the Federal Government. With the growth in Federal expenditures due for further slowing and with revenue sharing increasing, the outlook is for State and local Governments to increase expenditures much faster than at the Federal level, perhaps at a faster rate than the 10.3% increase in 1972.

Federal purchases of goods and services increased 8.3% in 1972, reflecting the sharp slowdown in the second half of 1972. The principal factor has been the steady slowing in the increase of national defense expenditures.

The proposed Budget presented in January by the President indicates that the rate of growth in Federal expenditures will be maintained at about last years' level. Total proposed Federal expenditures for 1974 will increase by 7.6% over fiscal 1973, compared to increases of 9.7% and 7.7% in fiscal years 1972 and 1973, respectively. The proposed expenditure level for fiscal 1974 is set at $268.7 billion.

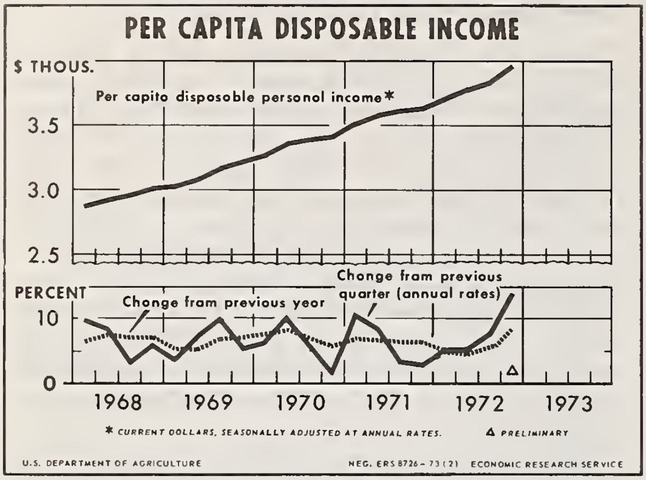
INCOME AND EXPENDITURES



Employment and Income

With real output increasing in 1972, employment rose 3.3%. The labor force expanded almost as fast as employment, resulting in an unemployment rate which remained stable until mid-1972. The bulge in the labor force resulted largely from a sharp increase in the number of women entering the labor market. Unemployment for the year averaged 5.6%, but the monthly rate declined to 5.2% in November and December. With the unemployment rate in January 1973 at 5%, it seems certain that unemployment will average well below the 5.6% of 1972.

Average hourly earnings of production or nonsupervisory personnel were $3.78 in January, an



increase of 6½% over a year ago. Because of a decrease in the actual workweek, and the gain in average wages, weekly earnings rose 6.2% over January 1972. As a result of the large wage increases and smaller increases in prices, real spendable earnings made one of the largest gains in nearly a decade.

Disposable personal income increased $29.6 billion in the fourth quarter and for the year averaged 6.8% above 1971. The rate of increase will likely accelerate in 1973.

Price Indexes Surge Upward

The three major price indices displayed a common upward surge in 1972, although of different degrees. The wholesale price index for 1972 rose 4.6% with farm products recording a 10.7% increase.

With an advance of 3.4% in the fourth quarter over the previous quarter, the CPI recorded a 3.3% increase in 1972 over 1971. This increase, relative to increases in the wholesale price index, indicates that strong price pressures in the early part of 1973 will test Phase III.

The implicit gross national product deflator, at a seasonally adjusted annual rate, was 3% above the 1971 level.

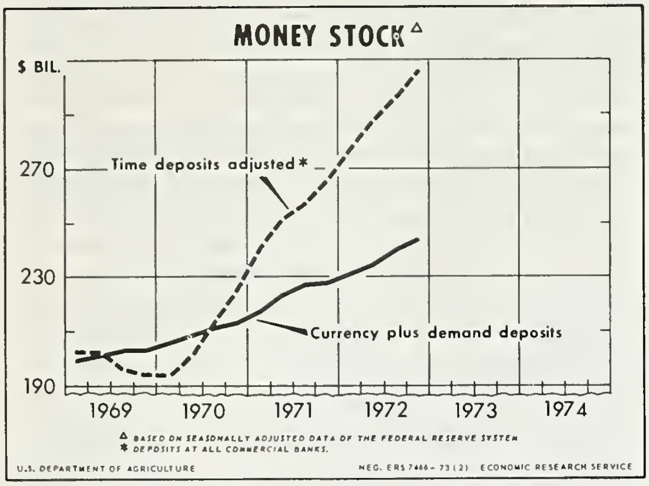
As output expands and excess capacity becomes more fully utilized, price pressures will build in 1973. The extent of the 1973 price increase, which will depend on Phase III, wage negotiations, and consumer attitudes, may be around 3½%.

Money Markets

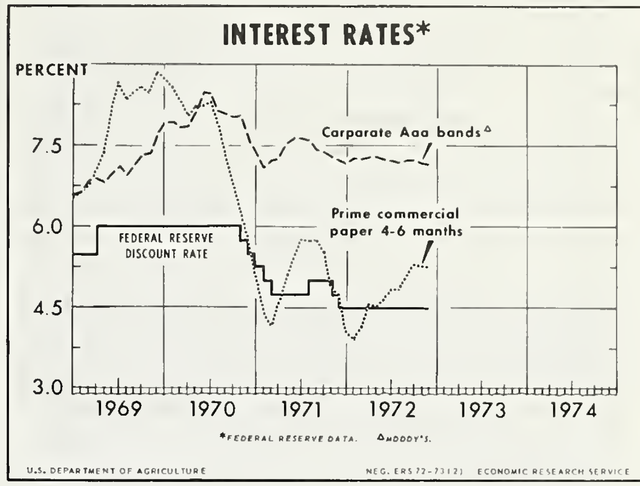
The money stock, which consists of demand deposits plus currency, increased 8.2% from December 1971 to December 1972. The monetary base, which dictates the growth in the money stock, increased 8.3% in 1972, compared with a trend growth rate of 5.8% from late 1966 to late 1971. Over 60% of this increase in the base was attributed to Federal Reserve credit which is composed of holdings of government securities and Federal Reserve loans to member banks. Some tightening in money supply is indicated for 1973 as the Federal Reserve Board raised the discount rate from 4.5% to 5.0%, effective January 15, thus closing the gap between the discount rate and returns on loans made by member banks.

Table 6.—Consumer Price Index (1967=100)

Year and month	All items index	Change from previous month annual rates	Change from year-ago	Food index	Change from previous month annual rates	Change from year ago
	1967=100	*Percent*	*Percent*	*1967=100*	*Percent*	*Percent*
1972						
January	123.2	1.0	3.4	120.3	0	4.2
February	123.8	5.9	3.7	122.2	19.0	5.4
March	124.0	1.9	3.5	122.4	1.9	4.6
April	124.3	2.9	3.4	122.4	0	3.9
May	124.7	3.8	3.2	122.3	-1.0	3.5
June	125.0	2.9	2.9	123.0	6.8	3.2
July	125.5	4.8	3.0	124.2	11.8	3.7
August	125.7	1.9	2.9	124.6	3.8	3.8
September	126.2	4.8	3.3	124.8	1.9	4.8
October	126.6	3.8	3.4	124.9	1.0	5.0
November	126.9	2.9	3.5	125.4	4.8	5.4
December	127.3	3.8	3.4	126.0	5.8	4.7



The effects of wage-price controls may be just wearing off, as short-term rates are now increasing sharply, although they remain below averages of recent years. Three-month Treasury bill yields averaged around 5.3% in January compared with 3.4% in January 1972. Interest rates on highest grade seasoned corporate bonds averaged around 7% in December, little changed from the early part of 1972.



THE FARMER AND THE BUDGET
(The 1974 Agricultural Budget)

For two years the Federal Budget has provided substantial fiscal stimulus to move the economy toward full employment. For fiscal 1974, the Administration has proposed a Budget to Congress which is designed to limit inflation while maintaining full employment with no tax increases. The new Budget estimates a 7.7% increase in Federal expenditures in the current fiscal year and proposes to maintain this rate of increase in fiscal 1974. The rate of increase in total revenues will, however, accelerate sharply. Total revenues in fiscal 1973 are estimated to rise by 7.9% while the proposed increase for fiscal 1974 is 13.8%. Much of this increase is due to expected growth in individual and corporate incomes in 1973 and 1974 and to legislative changes in social insurance taxes and contributions. The net impact of the Budget is to reduce the Federal deficit by nearly 50% from fiscal 1973.

The Budget for fiscal 1974 proposes to reduce the proportion of Federal outlays going to Defense, Education, Agriculture, Commerce, and Veterans benefits, while increasing the share to Health. The proportion of the outlays going to the other major functions are roughly equal to the fiscal 1973 distribution.

Percent distribution of Budget outlays by function[1]

Function	1972 actual	1973 est.	1974 proposed
	Percent	*Percent*	*Percent*
National defense	33.8	30.6	30.2
Income security	28.0	30.4	30.5
Interest	8.9	9.1	9.2
Health	7.4	7.2	8.1
Commerce	4.8	5.0	4.3
Veterans	4.6	4.7	4.4
Education	4.2	4.2	3.8
Agriculture	3.1	2.4	2.1
General government	2.1	2.2	2.2
Community and housing	1.9	1.6	1.8
International	1.6	1.3	1.4
Space	1.5	1.2	1.2
Natural resources	1.6	.4	1.4
Other*	-3.4	-.4	-.5
Total outlays[2]	100.0	100.0	100.0

[1] All years are on a fiscal basis. Outlays include expenditures and net lending and and trust funds. [2] Totals may not add due to rounding.

*Net receipts.

The increase in total outlays for National Defense are in part, a result of an effort to maintain military and civilian pay levels comparable to the private sector and to achieve an all-volunteer armed forces. The expansion in the Income Security function are largely due to the enactment of liberalizations in the social security program in 1973 and a 20% increase in benefits. An estimated 5 million additional persons will benefit from the substantial expansion in financial support for health services, specifically Medicare. Expanded Budget outlays for community development and housing are the result of commitments made in prior years, rather than from new Budget authority. The rather sharp apparent increase in Natural Resources outlays is somewhat misleading. In fact, total outlays are proposed to increase by only $0.7 billion, primarily in the area of sewage plant construction grants. The major share of the remaining increase is due to a $2.1 billion decline in receipts from rents and royalties on Outer Continental Shelf Lands.

Budget outlays by functions[1]

Function	1972 actual	1973 est.	1974 proposed
	Billion dollars	*Billion dollars*	*Billion dollars*
National defense	78.3	76.4	81.1
Income security	64.9	75.9	82.0
Interest	20.6	22.8	24.7
Health	17.1	18.0	21.7
Commerce	11.2	12.5	11.6
Veterans	10.7	11.8	11.7
Education	9.8	10.5	10.1
Agriculture	7.1	6.1	5.6
General government	4.9	5.6	6.0
Community and housing	4.3	4.0	4.9
International	3.7	3.3	3.8
Space	3.4	3.1	3.1
Natural resources	3.8	.9	3.7
Other*	-7.9	-1.1	-1.3
Total outlays[2]	231.9	249.8	268.7
Total revenues	208.6	225.0	256.0
Deficit	23.2	24.8	12.7

[1] All years are on a fiscal basis. Outlays include expenditures and net lending and trust funds. [2] Totals may not add due to rounding.

*Net receipts

Tables in this article show the amount of outlays scheduled for other functional categories of immediate interest to the farmer and the rest of the agricultural community. Categories that relate directly to Agriculture are largely administered by the U.S. Department of Agriculture and are roughly equivalent to a 1974 Agricultural Budget.

The Agriculture and Rural Development function received the largest absolute cutback and the subfunctions of this category are itemized in the

following table. The farm income and stabilization programs for 1973 crops are designed to continue high levels of farm income through increased reliance on the private marketplace and less dependence on government subsidies. As a result, total outlays for price support and related programs will be reduced $694 million under the proposed Budget.

USDA Budget outlays[1]

Function	1972 actual	1973 est.	1974 Proposed
	Billion dollars	*Billion dollars*	*Billion dollars*
Agriculture and rural development	7.1	6.1	5.6
Income security	2.3	2.5	2.2
Food for peace	1.0	.8	.8
Natural resources	.8	.9	.8
Other*	-.3	-.2	.2
Total	10.9	10.1	9.6

[1] All years are on fiscal year basis. Outlays include expenditures and net lending.

*Net receipts.

Budget outlays for agriculture and rural development

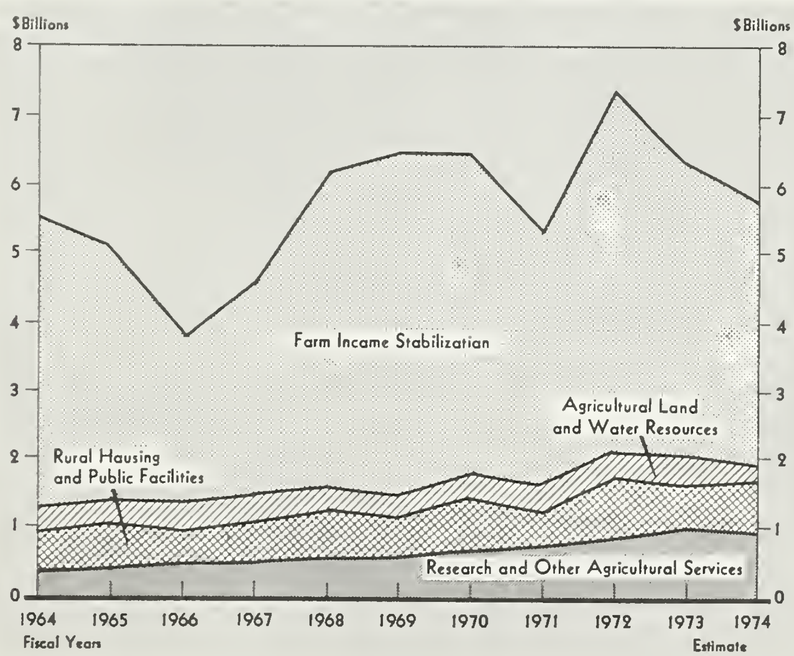
Subfunction	1972 actual	1973 est.	1974 proposed
	Billion dollars	*Billion dollars*	*Billion dollars*
Farm income stabilization	5.1	4.3	3.9
Agricultural land and water resources	.4	.4	.2
Rural housing and public facility	.9	.7	.7
Research and other agriculture services	.9	1.0	1.0
Total*	7.1	6.1	5.6

*Total includes offsetting receipts.

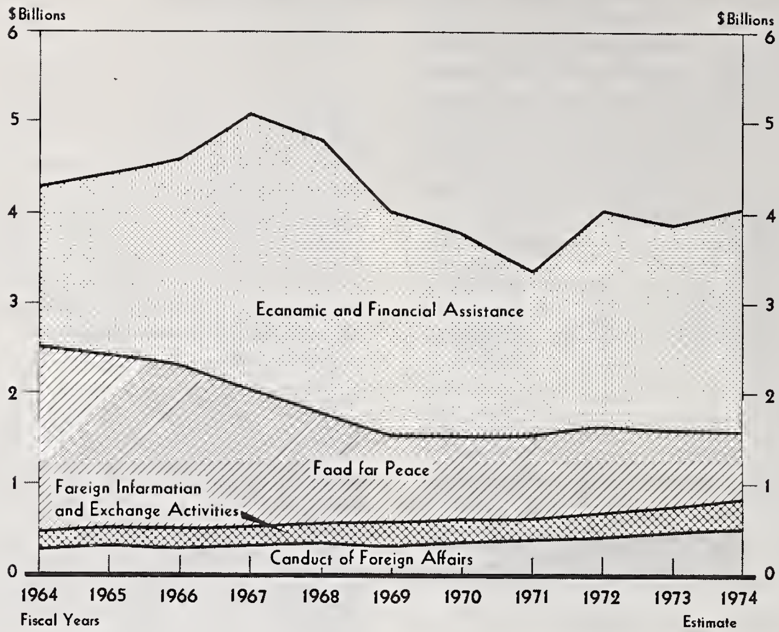
The Budget also recommended termination of Federal cost sharing under the rural environment assistance program (REAP) and reductions in the Income Security Function, largely in the area of special milk programs for school children.

The major remaining functions of the Agriculture outlays would remain near the 1973 levels. As always all of the above proposals for fiscal 1974 are subject to debate and final approval by Congress.

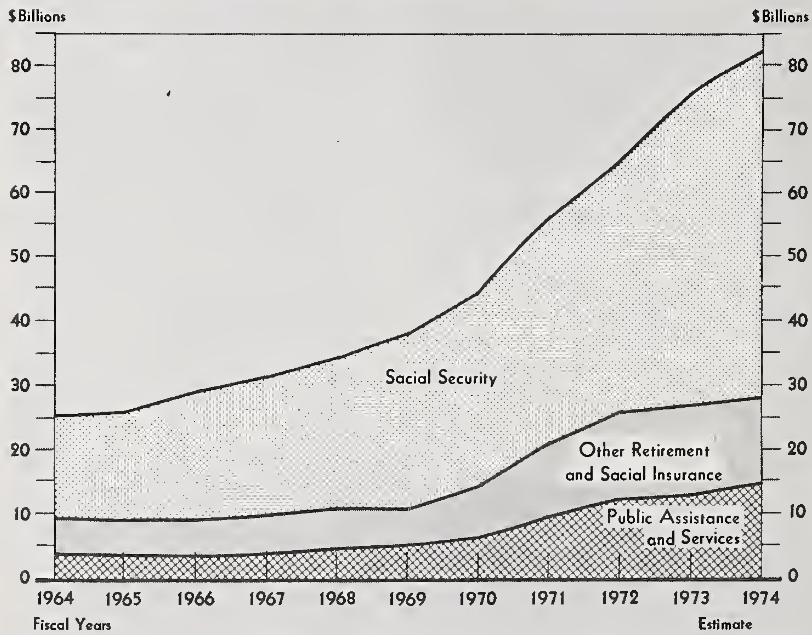
AGRICULTURE AND RURAL DEVELOPMENT



INTERNATIONAL AFFAIRS AND FINANCE



INCOME SECURITY



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